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EAST SUSSEX

Coronavirus: impact of the crisis on East Sussex commercial property

Seventh report: February 2021

1. The evidence base for this February report is based on four telephone interviews conducted between 23rd February and 2nd March 2021 with the following property professionals: partners in two commercial agency/chartered surveying practices both operating from offices in Brighton but with a strong presence in East Sussex; the landlord of a large diversified farm in rural Rother; and the centre manager of a managed workspace facility.

2. One of chartered surveying practices – with a department specialising in retail – reported that the secondary/tertiary retail market is still fairly buoyant in East Sussex. Rental levels have had to drop to generate interest but the market is still busy and there are still deals to do with landlords offering rent-free periods/free fit-out to coincide with the lockdown period. Prime retail is, as the news headlines suggest, a much more difficult market. Empty department stores – essentially Debenhams in East Sussex – offer longer-term commercial opportunities as they are unlikely to be replaced with another department store and so another use will need to be found for the premises. It is predicted that the most far-reaching implications of the pandemic will be on shopping centres, as anchor tenants that generate footfall pull out or fail. Alternative uses such a leisure or residential will be required to fill the void.

3. Both chartered surveyors reported that enquiries are now picking up in the office market. The government announcement on 22nd February giving a roadmap for finally lifting lockdown potentially heralds a return to more normality in the office workplace. There are early signs of the office market starting to recover with more companies starting to look again for premises. There is evidence, however, that requirements are changing with smaller, more flexible and higher quality space in demand – with serviced space of interest.

4. It is yet to be seen if this signals a general return to office working as public sector and large corporations are cautious with, in many cases, only 50% of staff working from office premises. Many tenants are questioning whether they actually need the space they have and, when there is a lease event (such as a lease ending or break clause) decisions are being made to relocate into much smaller premises. Indeed, one of the surveying practices interviewed has re-evaluated its own space requirements for all its offices along these lines as ‘agile working’ (part office/part homeworking) is deemed to the way forward after a pilot study showed it was operationally sustainable. In other changes the practice has gone paperless and storage space has been radically cut. Some companies have moved office activities entirely to home working.

5. The centre manager for the managed workspace facility said that the position is currently fairly static. There are new clients and internal moves, with some businesses growing and needing more space, but the occupancy rate remains fairly static at about 65-68%. There is, however, more optimism in this market than in 2020. In January 2021 enquiries woke up with companies doing research for potential occupation, an effect that intensified with February’s roadmap announcement for lockdown restrictions being lifted. She predicts a return to a healthy 80-90% occupation rate by the end of the year. Demand is locally based with no substantive interest from outside the area; those businesses that leave generally do so because they have outgrown the Centre and stay in the area.

6. The industrial market is very strong but is now seriously hampered by lack of empty stock ready for companies to move into. This is the experience of the two shed specialists working in the County's heavily contested business locations, and that of the diversified farmer in rural Rother. His rural business park is still full with the same tenants as when interviewed in July 2020: whilst some have had mixed fortunes during the pandemic, all seem to have been able to trade in some degree throughout lockdown. He has seen a high demand for his premises, having accumulated a list of 24 enquiries since September 2020 from word of mouth alone, without any advertising. These range from classic car storage enquiries, artists, wine merchants and CNC machinists, to a manufacturer who wants to let a large 6,500 ft^2 unit. His view is that there is healthy demand, especially for better quality units, although there is also a core demand for 'cheap and cheerful' uninsulated space where it is necessary for tenants to 'wear two jerseys in winter'. He believes this sort of cheap space is necessary for industrial businesses starting out that need a low cost-base to get established.

7. In the mainstream industrial segment there has been a strong market for 6-7 years which has not suffered any coronavirus related decline because occupiers have been able to operate through the pandemic (these businesses cannot operate from home and therefore are not subject to government restrictions). The surveyors reported that the market for sheds is now getting tighter principally because of the growing importance of on-line retailing during the pandemic. As more retail activity is transacted online, additional warehousing is required to fulfil these orders. The pressure on warehousing has been further accentuated by the trend towards 'last mile logistics'. Customers have become used to receiving goods quickly and more warehousing near to population centres has been required to increase the speed of response to customers.

8. One surveyor said that the quickly-changing industrial landscape, where long-term property trends were compressed into a few months by the pandemic, has made it difficult for businesses to plan ahead. There have also been operational challenges: for example, on-line retailing has had implications on managing working hours. There are also challenges to be faced in the future: for example, charging EVs at work.

9. Industrial rents are increasing, and there has been a premium to pay for the current flexibility in rental terms that occupiers require. Therefore 5-year leases with a 3-year break will command higher rents than a traditional 10-year lease. One surveyor said that occupiers also pay a rental premium for brand new units, although there is a benefit in that any problems with the building can be put right through the warrantee. He reported that the potential for high dilapidation payments on their existing premises has deterred some occupiers from moving into more appropriate space.

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